

Journal

Meaning of Debit and Credit and Classification of Accounts

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Account
 - Classification of Accounts
 - Meaning of Debit and Credit
 - Rules of Debit and Credit

Introduction

In this lesson, we will discuss about accounts, which are medium for recording transactions in the books of accounts on the basis of the rules of debit and credit. Basically, we record a business transaction in the books on the basis of evidences or source documents. These transactions are first recorded in the books of original entry such as Sales Book, Purchase Book, Journal, etc. After recording them in Special Purpose Book, these are posted into the ledgers or the individual accounts maintained for this purpose. So it's important to discuss meaning of "Account" and how it is related with debit and credit.

Meaning of Account

An account is a summarised form of all the transactions relating to a particular head at one place in chronological order. An account not only records the amount of the transaction but also its effect and direction.

Classification of Accounts

Accounts are classified on two basis:

- (i) Traditional Classification of Accounts
- (ii) Modern Classification of Accounts

(i) Traditional Classification of Accounts: This is an old method of classifying accounts. Under this method accounts are classified into three types. These are

- (a) Personal Accounts
- (b) Real Accounts
- (c) Nominal Accounts

(a) Personal Accounts are those accounts that relate to persons such as individuals (like Ram, Mohan, Sohan, etc), firms (like XYZ & Co., Ajit Ram and Brothers, etc), companies (like XYZ Ltd, ABC Ltd, etc), debtors (name of debtors), creditors (name of creditors), capital account of proprietor or drawings account of proprietor, etc. Personal Accounts are broadly classified into three categories.

(i) *Natural Person Account*- It refers to accounts of living human beings such as Rohit's Account, Lata's Account, etc.

(ii) *Artificial Person Account*- It refers to accounts of companies or firms that act as a person in the business transactions. For example, ABC Ltd Account, XYZ Ltd Account.

(iii) *Representative Personal Account*: It refers to account that acts as a representative of certain person. For example, Salary Outstanding Account represents salary payable to employees and Rent Outstanding Account represents rent payable to landlord.

(b) Real Accounts are those accounts that relate to tangible or intangible real assets. Tangible assets are the assets which have physical existence or in simple words assets which can be seen and touched, such as Land, Building, Machinery, Furniture, etc. On the other hand, intangible assets are the assets which do not have any physical existence such as Patents, Copyright, Goodwill, etc.

(c) Nominal Accounts are the accounts that are related to expenses (such as purchases, interest paid, salaries, etc), incomes (such as interest received, commission received, etc), losses (loss by fire, loss by theft) or gains (gain on sale of assets), etc.

Example 1 Classify the following items in Personal, Real and Nominal Accounts.

(i) Cash A/c	(vi) Sales A/c	(xi) Capital A/c
(ii) Bank A/c	(vii) Bad Debts A/c	(xii) Discount Received A/c

(iii) Goodwill A/c	(viii) Interest Paid A/c	(xiii) Outstanding Rent A/c
(iv) Bank Overdraft A/c	(ix) Discount Allowed A/c	(xiv) Bad Debt Recovered A/c
(v) Drawings A/c	(x) Prepaid Insurance A/c	(xv) Carriage Outward A/c

Solution

Personal Accounts	Real Accounts	Nominal Accounts
(ii) Bank A/c	(i) Cash A/c	(vi) Sales A/c
(iv) Bank Overdraft A/c	(iii) Goodwill A/c	(vii) Bad Debts A/c
(v) Drawings A/c		(viii) Interest Paid A/c
(x) Prepaid Insurance A/c		(ix) Discount Allowed A/c
(xi) Capital A/c		(xii) Discount Received A/c
(xiii) Outstanding Rent A/c		(xiv) Bad Debt Recovered A/c
		(xv) Carriage Outward A/c

Example 2 Classify the following items in Personal, Real and Nominal Accounts.

(i) Sales A/c	(vi) Commission Received A/c	(xi) Furniture A/c
(ii) Livestock A/c	(vii) Freehold Property A/c	(xiii) Interest Received in Advance A/c
(iii) Copyright A/c	(viii) Interest Received A/c	(xii) Outstanding Rent A/c
(iv) Suresh's A/c	(ix) Light, Power and Electricity A/c	(xiv) Stationery A/c
(v) Interest Accrued A/c	(x) Carriage Inward A/c	(xv) Investments A/c

Solution

Personal Accounts	Real Accounts	Nominal Accounts
(iv) Suresh's A/c	(ii) Livestock A/c	(i) Sales A/c
(v) Interest Accrued A/c	(iii) Copyright A/c	(vi) Commission Received A/c
(xii) Outstanding Rent A/c	(vii) Freehold Property A/c	(viii) Interest Received A/c
(xiii) Interest Received in Advance A/c	(xi) Furniture A/c	(ix) Light, Power and Electricity
	(xv) Investments A/c	(x) Carriage Inward A/c
		(xiv) Stationery A/c

(ii) Modern Classification of Accounts: Under modern classification, accounts are classified into five main categories. These are:

- (a) Assets Accounts
- (b) Liabilities Accounts
- (c) Capital Accounts
- (d) Revenue Accounts
- (e) Expenses Accounts

(a) *Assets Accounts*: These accounts relate to tangible and intangible real assets. Its examples are Land A/c, Machinery A/c, Furniture A/c, Cash A/c, Patents A/c, etc.

(b) *Liabilities Accounts*: These accounts are related to financial obligations of an enterprise towards outsiders. Its examples are Creditors, Loan, Bank Overdraft, etc

(c) *Capital Accounts*: These accounts include accounts of the proprietor of an organisation such as Capital A/c, Drawings A/c, etc. These are related to owners of an enterprise.

(d) *Revenue Accounts*: These accounts include accounts related to amount received or receivable on goods sold, services rendered or other incomes such as Interest received A/c, Commission received A/c, Royalty received A/c, Dividend received A/c, etc.

(e) *Expenses Accounts*: These accounts include accounts related to amount incurred or lost in the process of earning revenue. Its examples are Purchases A/c, Discount Allowed A/c, Salaries A/c, Interest paid A/c, etc.

Example 3 Classify the following accounts, according to the modern approach.

(i) Cash A/c	(ix) Rent Received A/c
(ii) Bank A/c	(x) Conveyance Expenses A/c
(iii) Sales A/c	(xi) Bank Loan A/c
(iv) Purchases A/c	(xii) Drawings A/c
(v) Bank Overdraft A/c	(xiii) Commission Paid A/c
(vi) Travelling Expenses A/c	(xiv) Trademark A/c
(vii) Repairs A/c	(xv) Furniture A/c
(viii) Bad Debts A/c	(xvi) Supplier's A/c

Solution

Items	Nature of Accounts
(i) Cash A/c	Assets
(ii) Bank A/c	Assets
(iii) Sales A/c	Revenue
(iv) Purchases A/c	Expenses
(v) Bank Overdraft A/c	Liabilities
(vi) Travelling Expenses A/c	Expenses
(vii) Repairs A/c	Expenses
(viii) Bad Debts A/c	Expenses

(ix) Rent Received A/c	Revenue
(x) Conveyance Expenses A/c	Expenses
(xi) Bank Loan A/c	Liabilities
(xii) Drawings A/c	Capital
(xiii) Commission Paid A/c	Expenses
(xiv) Trademark A/c	Assets
(xv) Furniture A/c	Assets
(xvi) Supplier's A/c	Liabilities

Example 4: Classify the following accounts according to Traditional as well as Modern Classification of Accounts.

1.	Capital brought in	2.	Furniture A/c	3.	Purchases A/c
4.	Drawings A/c	5.	Buildings A/c	6.	Sales A/c
7.	Discount Allowed	8.	Carriage Inwards A/c	9.	Commission Paid A/c
10.	Interest Received	11.	Fuel and Power	12.	Subscriptions Received
13.	Prepaid Rent	14.	Discount Received	15.	Bank A/c
16.	Cash Paid	17.	Repairs	18.	Bad Debts Written Off
19.	Travelling Expenses	20.	Conveyance Charges	21.	Bank Overdraft
22.	Wages and Salaries	23.	Sales Returns	24.	Printing and Stationery
25.	Advertisement Expenses				

Solution

1. A) According to Traditional Approach

	Personal Accounts		Real Accounts		Nominal Accounts
1.	Capital brought in	2.	Furniture A/c	3.	Purchases A/c
4.	Drawings A/c	5.	Buildings A/c	6.	Sales A/c
13.	Prepaid Rent	16.	Cash Paid	7.	Discount Allowed
15.	Bank A/c			8.	Carriage Inwards A/c

								Bad Debts Written Off
								19. Travelling Expenses
								20. Conveyance Charges
								22. Wages and Salaries
								24. Printing and Stationery
								25. Advertisement Expenses

Meaning of Debit and Credit

Under Double Entry System of accounting, each business transaction is recorded with dual aspect that means debit and credit aspect. Both debit and credit originate from the latin words. In latin language, Debit means "*Debere*" and Credit means "*Crederé*". Therefore, Dr. is used as a short form of the word "*Debere*" and Cr. is used as a short form of word "*Crederé*". Every business transaction involves at least two accounts for the purpose of recording, in which one account is debited and other is credited. When we say an account is debited this means we will write an amount on the *left side* of this account, on the other hand, when we say an account is credited it means, we will write an amount on the *right side* of this account. Debit or credit also implies increase or decrease in an account, depending on their nature (*i.e.* Personal, Real or Nominal).

Rules of Debit and Credit

The rules for debit and credit depend upon the classification of accounts. These are mentioned below.

1) When accounts are classified on Traditional basis

When accounts are classified into personal, real and nominal accounts then the following three rules of accountancy are followed:

Personal Accounts- "Debit the Receiver, Credit the Giver"

Real Accounts- "Debit what Comes in, Credit what Goes out"

Nominal Accounts- "Debit All Expenses and Losses, Credit all Incomes and Gains"

2) When accounts are classified on Modern basis

Under Modern classification of accounts following rules of accounting are used:

- **Assets Accounts**-The increase in assets is debited to the respective asset account while decrease in asset is credited to the respective asset account. Suppose, a machinery is purchased for Rs 5,00,000 in cash. Here, as machinery is being purchased for cash, machinery is increasing while cash is decreasing. So, increase in machinery will be debited to Machinery Account and the decrease of cash will credited to Cash Account.
- **Liabilities Accounts**-The decrease in amount of liabilities is debited, while increase is credited. For example, purchased goods from XYZ Ltd. on credit for Rs 20,000. Here, liability is arising as payment is to be made and accordingly XYZ Ltd. will be credited by Rs 20,000.
- **Capital Accounts**-When capital is brought in or introduced by the owner or partner of the firm, Capital Account will be credited and for withdrawing from business it will be debited. In simple terms, decrease in Capital is debited and increase in the same is credited.
- **Revenue Accounts**-When any amount is received or receivable, the respective income account will be credited. It means for increase in income the respective income account will be credited and for decrease, the respective income account will be debited. For example, sale of goods for cash of Rs 10,000. In this case, Sales Account will be credited by Rs 10,000 and Cash Account will be debited by an equal amount as increase in asset is debited.
- **Expenses Accounts**-Expenses are the costs of running a business. The increase in expenses is debited, whereas, decrease is credited. In case salaries of Rs 5,000 are paid to staff, here Salary Account will be debited as salary being expenditure is increasing and Cash Account will be credited by Rs 5,000.

Example 5 Analyse the transactions given below as per the modern approach and also state accounts that are to be debited or credited.

- (i) Suresh started business with cash.
- (ii) Purchased goods from Manjeet Singh.
- (iii) Sold goods for cash.
- (iv) Paid Rent
- (v) Cash deposited in the bank
- (vi) Cash withdrawn from bank for personal purpose
- (vii) Paid interest on loan
- (viii) Paid instalment of loan

Solution

Analysis of Transactions

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
(i)	Cash A/c	Asset	Increased	Debit
	Capital A/c	Capital	Increased	Credit
(ii)	Purchases A/c	Expense	Increased	Debit
	Manjeet Singh's A/c	Liability	Increased	Credit
(iii)	Cash A/c	Asset	Increased	Debit
	Sales A/c	Revenue	Increased	Credit
(iv)	Rent A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(v)	Cash A/c	Asset	Decreased	Credit
	Bank A/c	Asset	Increased	Debit
(vi)	Drawings A/c	Capital	Decreased	Debit
	Bank A/c	Asset	Decreased	Credit
(vii)	Interest on Loan A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(viii)	Loan A/c	Liability	Decreased	Debit
	Cash A/c	Asset	Decreased	Credit

Example 6 Analyse the transactions given below as per the modern approach and also state accounts that are to be debited or credited.

- (i) Purchased goods for cash.
- (ii) Sold goods to Keshav.
- (iii) Interest received.
- (iv) Loan borrowed from Bhupinder.
- (v) Bad debts recovered.
- (vi) Cash deposited in the bank.

- (vii) Paid advances to Suppliers.
 (viii) Received from Vinod (debtor) by cheque.

Solution

Analysis of Transactions

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
(i)	Purchases A/c	Expense	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(ii)	Keshav's A/c	Asset	Increased	Debit
	Sales A/c	Revenue	Increased	Credit
(iii)	Cash A/c	Asset	Increased	Debit
	Interest Received A/c	Revenue	Increased	Credit
(iv)	Cash A/c	Asset	Increased	Debit
	Loan A/c	Liability	Increased	Credit
(v)	Cash A/c	Asset	Increased	Debit
	Bad debt recovered A/c	Revenue	Increased	Credit
(vi)	Bank A/c	Asset	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(vii)	Advance to Suppliers A/c	Asset	Increased	Debit
	Cash A/c	Asset	Decreased	Credit
(viii)	Bank A/c	Asset	Increased	Debit
	Vinod	Asset	Decreased	Credit

Example 7 Analyse the transactions given below as per the traditional approach and also state accounts that are to be debited or credited.

- (i) Business started with cash
 (ii) Purchased goods for cash
 (iii) Salaries Paid
 (iv) Sold goods for cash
 (v) Deposited Rs 500 in bank
 (vi) Purchased furniture from JP Furnishers on credit
 (vii) Sold goods to Nikhil
 (viii) Proprietor's house rent paid

Solution

Analysis of Transactions

Transactions	Accounts Involved	Nature of Accounts	Effect	Debited or Credited
--------------	-------------------	--------------------	--------	---------------------

(i)	Cash A/c Capital A/c	Real Representative Personal	Comes in Giver	Debit Credit
(ii)	Purchases A/c Cash A/c	Nominal Real	Expenses and Losses Goes out	Debit Credit
(iii)	Salaries A/c Cash A/c	Nominal Real	Expenses and Losses Goes out	Debit Credit
(iv)	Cash A/c Sales A/c	Real Nominal	Comes in Incomes and Gains	Debit Credit
(v)	Bank A/c Cash A/c	Personal Real	Receiver Goes out	Debit Credit
(vi)	Furniture A/c JP Furnishers A/c	Real Personal	Comes in Giver	Debit Credit
(vii)	Nikhil A/c Sales A/c	Natural Personal Nominal	Receiver Incomes and Gains	Debit Credit
(viii)	Drawings A/c Cash A/c	Representative Personal Real	Receiver Goes out	Debit Credit

Strengthen this topic TAKE A TOPIC TEST

SCROLL DOWN FOR THE NEXT TOPIC

Systems of Book-Keeping: Single Entry and Double Entry

Objective

After going through this lesson, you shall be able to understand the following concepts.

- Single Entry System
- Double Entry System

Single Entry System

This system of accounting is also known as Incomplete Recording System. Under this system, only personal accounts and cash book are maintained in contrast to the maintaining of all the accounts as under the conventional system of accounting. This system of accounting relies on one sided accounting entry to maintain financial information.

According to Kohler "Single entry system is a system of book keeping in which as a rule only records of cash and personal accounts are maintained. It is always an incomplete double entry, varying with circumstances"

Characteristics of Single Entry System

The following are the various characteristics of Single Entry System.

1. **Unsystematic or Unscientific System**-This is an unsystematic or unscientific method of maintaining the accounting records which leads to the volatile and inconsistent results.
2. **Ignorance of Double entry System**-This system does not follow the Double Entry System for recording transactions in the books.
3. **Preparation of Personal Accounts**-In this system, only Personal Accounts such as Debtors and Creditors Account are prepared. The Real and Nominal Accounts except Cash Book are ignored under this system.
4. **Adoption**-Generally, this system is adopted by the Sole Proprietor and Partnership Firms who are comparatively small-sized as compared to the big companies, where the number of transactions is huge.
5. **Absence of Uniformity**-The Books of accounts maintained under Single Entry System are not uniform because no set of universal rules are followed. The rules of maintaining Books of account may vary from person to person depending on their needs and desires.
6. **Maintenance of Cash Book** -The Cash Book maintained under this system records both business as well as personal transactions of traders.
7. **Profit is not Accurate**-The profit ascertained under this system is just an estimate and not accurate.
8. **Difficulty in Preparation of Final Accounts**-As only personal accounts are maintained while completely ignoring the real and the nominal accounts, so, it results in difficulty in preparing final accounts.

Advantages of Single Entry System

The given below are some of the advantages of Single Entry System.

1. **Easy to Maintain**-This method of recording transactions in the books is simple. This is because no expert knowledge of Accounting is required to maintain books.
2. **Economical**-This system is less expensive in comparison of Double Entry System as there is no need to hire a specialised accountant for maintaining Accounting records.
3. **Small Business**-This system is suitable to the small business organisations that do not enter into large number of transactions.
4. **Less Time Consuming**-It is less time consuming as only fewer books are to be maintained.
5. **Flexible**-As the rules of Double Entry System are not strictly followed for maintaining the books, so, it can be easily adjusted or changed as per the requirement of the proprietor.
6. **Simple to Compute Profit or Losses**-The computation of profits or losses under this system is very simple. This is done merely by comparing the capital at the end by that of in the beginning.

Disadvantages of Single Entry System

The mentioned below are the various disadvantages of Single Entry System.

1. **Lack of Arithmetical Accuracy**-Under this system, Trial Balance is not prepared; therefore, it becomes extremely difficult in verifying and checking the arithmetical accuracy of the books of accounts so prepared. This in turn may encourage frauds and manipulations.
2. **Unsystematic or Unscientific System**-As the dual aspects of the transactions are not recorded, so this system is considered to be incomplete or unscientific.
3. **Lack of Control over the Assets**-As Real and Nominal Accounts are not prepared, so it is difficult to keep a proper account of the Assets. This may lead to misappropriations (overcasting of assets above their actual costs), frauds and embezzlement of Assets.
4. **Difficulty in Detection of Errors and Frauds**-Since proper Accounting system is not followed, so the books of accounts fail to reveal the clear financial picture of the business. This may further encourage the probability of undetectable errors and frauds.
5. **Accurate Profits or Losses cannot be determined**-Under this system, the profits or losses as determined are a mere approximation and are not the actual ones. Thus, the Single Entry System is not capable of depicting the clear Financial Position of the business.
6. **Comparative Study not Possible**-One of the major drawbacks of this system is that it fails to compare the current year's performance with that of the previous year. Thus, meaningful comparative study and analysis cannot be laid.
7. **Fails to Determine Growth of Business**-The actual performance of a business is expressed and measured in terms of profits and losses. Since, the Single Entry System is incapable of revealing the actual profit or loss figures; therefore, this system fails to able the users to assess the actual performance of business and its growth prospects.
8. **Unacceptable to Tax Authorities**-The Books of accounts maintained by following Single Entry System is not acceptable by the tax authorities on any grounds. This is because these books are not maintained by following universally and lawfully accepted accounting principles.

Double Entry System

Double Entry System was first codified by the Franciscan friar Luca Pacioli in the 15th Century. According to this system of book-keeping, every financial transaction has two equal and opposite effects. It is used to satisfy the basic accounting equation i.e. Assets = Liabilities + Capital

The balance of all debits and credits in double entry book keeping system is always equal, as debit in one account will be balanced by credit in another account. Under the double entry system of book keeping, it is easier to detect errors and prepare financial statements directly from the books of accounts.

Characteristics of Double Entry System

The following are the various characteristics of Double Entry System.

- 1. Scientific Method-** This is a systematic or scientific method of maintaining the accounting records which leads to the determination of accurate business results.
- 2. Dual Aspect-** This system records two effects of a transaction, known as, debit and credit.
- 3. Profit is Accurate-** The profit ascertained under this system is accurate, as it records the dual effect of each transaction.
- 4. Arithmetical Accuracy-** The arithmetical accuracy of the recorded transactions is assured with the agreement of Trial Balance.
- 5. Adoption-** This system is suitable for all types of business organisations.

Advantages of Double Entry System

The given below are some of the advantages of Double Entry System.

- 1. Scientific System-** This is a systematic or scientific method of maintaining the accounting records which leads to the determination of accurate business results.
- 2. Maintains Complete Records-** This system is based on the complete record of transactions entered into during an accounting year.
- 3. Arithmetical Accuracy-** The arithmetical accuracy of the recorded transactions is assured with the agreement of Trial Balance.
- 4. Ease in Preparation of Final Accounts-** As complete record of transactions is maintained, so, it results in ease in preparing final accounts.
- 5. Early Detection of Errors and Frauds-** Since proper accounting system is followed, so the books of accounts reveal the clear financial picture of the business. This may further encourage the early detection of errors and frauds.
- 6. Facilitates Comparative Study-** One of the major merits of this system is that it facilitates comparison of current year's performance with that of the previous year. Thus, meaningful comparative study and analysis can be laid.
- 7. Assists in Determining Growth of Business-** The actual performance of a business is expressed and measured in terms of profits and losses. Since, the Double Entry System reveals the actual profit or loss figures; therefore, this system enable the users to assess the actual performance of business and its growth prospects.
- 8. Accepted and Recognised by Tax Authorities-** The books of accounts maintained by following Double Entry System are acceptable by the tax authorities. This is because these books are maintained by following universally and lawfully accepted accounting principles.

Disadvantages of Double Entry System

The mentioned below are the various disadvantages of Double Entry System.

- 1. Difficult to Maintain-** This method of recording transactions in the books is complex. This is because expert knowledge of accounting is required to maintain the books.
- 2. Costly-** This system is more expensive in comparison of Single Entry System as there is a need to hire a specialised accountant for maintaining accounting records.
- 3. Not suitable for Small Business-** This system is not suitable for the small business organisations. They do not enter into large number of transactions and also do not have the required funds to hire specialised accounting personnels for the maintenance of their books of accounts.
- 4. Time Consuming-** It is a time consuming process to maintain books of account under this method as complete record of transactions is to be kept.

5. Rigid- This system requires strict adherence to the universally accepted accounting principles for the maintenance of books of accounts.

SCROLL DOWN FOR THE NEXT TOPIC

Journal- Meaning, Format, Procedure for Recording Transactions

Objectives

After going through this lesson, you shall able to understand the following concepts.

- Meaning of Journal
- Format of Journal
- Features of Journal
- Steps of Journalising
- Advantages of Journal
- Limitations of Journal

Meaning of Journal

Journal is derived from the French word *Jour*, which means daily records. All the business transactions are first recorded in the Journal, therefore, it is also known as the "Book of Original Entry or Book of Prime Entry". In this book, we record the business transactions in a chronological order that means in the order (or date) of their occurrence. In the Journal, business transactions are recorded in the form of an entry (having effects on two sides). This entry is popularly referred to as Journal Entry.

In this book, transactions are recorded in the order of their occurrence, i.e., in chronological order from the source document. It is also termed as the book of original entry and each transaction is termed as Journal entry.

Format of Journal

Performa of Journal In the books of.....				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

Date– Date of transaction (in order of occurrence)

Particulars– Details of business transactions like, name of the parties involved and the name of related accounts, are recorded

L.F.– Page number of ledger book on which relevant account appears

Debit Amount– Amount against the account to be debited

Credit Amount– Amount against the account to be credited

Terminology for Journal

1) Book of Original Entry: Journal is the first book where the transactions are recorded directly from the source documents of a transaction like vouchers, etc. for the very first time. Hence, the name book of original entry.

2) Entry: It is a record of the financial transaction in the Journal hence the name Journal entry.

3) Journalising: The process of recording the transactions in the Journal is called Journalising.

4) Posting: The entries from the Journal are recorded in a book called ledger which classifies the items of a transaction into their respective accounts. This process of transferring from the Journal to the ledger accounts is called Posting.

Features of Journal

- 1) Journal is the book of original entry as transactions are recorded first in Journal as and when they take place.
- 2) This is also referred to as book of prime entry as the transactions recorded in Journal are subsequently transferred to Ledger accounts.
- 3) The transactions are recorded in chronological order i.e. in date-wise order.
- 4) Recording of transactions is done on the basis of Double Entry System of Book-Keeping i.e. it records both the debit and credit aspects of a transaction.
- 5) Journal shows complete details of a transaction in one entry with a brief explanation called 'Narration'.
- 6) The recording of transactions is done in the form of Journal entries and this method is called 'Journalising'.

Steps of Journalising

Following are the steps involved in recording a business transaction.

- (1) Identify the accounts involved in the transaction.
- (2) Analyse the nature of accounts identified in Step 1.
- (3) Identify which rule of accounting is applicable.
- (4) With the help of above rule, identify which account is to be debited and which to be credited.
- (5) Ascertain the amount by which the accounts are to be debited or credited.
- (6) Under the date column of Journal, record the date of transaction.
- (7) In the Particulars Column, on the extreme left hand corner write the 'Name of Account' that is to be debited. In the same line, write abbreviation Dr. (debit) on the extreme right hand corner under the same head. In the debit amount column, we write the amount to be debited against the Name of Account.
- (8) Again in the Particulars Column, in the next line little indented towards right we write the 'Name of Account' to be credited, preceded by word "To". In the credit amount column, we write the amount to be credited against the 'Name of Account'.
- (9) In the next line, under "Particulars Column" we write narration in brackets. Narration is simply the summary of business transaction recorded.

Advantages of Journal

- (1) In Journal, transactions are recorded in the **chronological order** i.e. transactions are recorded in the order of their occurrence.
- (2) Every Journal entry is **supported by a narration** which acts as a small explanation of the transaction.
- (3) It records both the aspects or **dual aspect** of a transaction i.e. debit and credit. As amount is recorded in both debit column and credit column, therefore, possibility of any mistake or errors is minimum. Moreover, if there is any error then it will be easily detected.

Limitations of Journal

Following are the limitations of Journal.

- (1) Recording of all transactions in Journal is a **time consuming process** and it also involves cost in terms of money.
- (2) As recording of transaction takes time, therefore, this system causes **delay in providing information**.
- (3) As journal is prepared by a single person, so there is no one to check his work. This shows **lack of internal check system**.
- (4) Due to recording of large number of transactions, Journal becomes very **bulky or voluminous book**.

Strengthen this topic TAKE A TOPIC TEST

SCROLL DOWN FOR THE NEXT TOPIC

Recording of Transactions in Journal

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Recording of a business transaction in Journal
 - Compound Journal Entry
 - Opening Entry

Recording of a business transaction in Journal

Under this, we analyse each individual business transaction in detail. Through analysis we will be able to identify the accounts involved in the transaction. Further by applying rules of accounting, we record the transaction in the books through a Journal entry. Let's take a few transactions in order to understand how to record them in the books.

Dissection					Journal					
Transactions	Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	
Shiv started business with cash of Rs 50,000 on April 01, 2013	Cash A/c	Asset	↑	Dr. as Asset is ↑ing	Apr. 01	Cash A/c	Dr.	50,000		
	Capital A/c	Capital	↑	Cr. as Capital is ↑ing	2013	To Capital A/c			50,000	
						(Started business with cash)				
On April 10, 2013 Purchase goods of Rs 12,500 in cash	Purchases A/c	Expenses	↑	Dr. as expenses are ↑ing	Apr. 10	Purchases A/c	Dr.	12,500		
	Cash A/c	Assets	↓	Cr. as Asset is ↓ing	2013	To Cash A/c			12,500	
						(Purchased goods for cash)				
On April 15, 2013 sold goods for cash Rs 35,000	Cash A/c	Assets	↑	Dr. as Asset is ↑ing	Apr. 15	Cash A/c	Dr.	35,000		
	Sales A/c	Revenue	↑	Cr. as Revenue is ↑ing	2013	To Sales A/c			35,000	
						(Goods sold for cash)				
On May 05, 2013 purchased goods from Vinod Rs 22,500	Purchases A/c	Expenses	↑	Dr. as expense is ↑ing	May 05	Purchases A/c	Dr.	22,500		

	Vinod's A/c (Creditor)	Liability	↑	Cr. as liability is ↑ing	2013	To Vinod			22,500
						(Goods purchased from Vinod on credit)			
On May 12, 2013 goods of Rs 4,500 were returned back to Vinod	Vinod's A/c (Creditor)	Liability	↓	Dr. as liability is ↓ing	May 12	Vinod	Dr.	4,500	
	Purchase Return A/c	Expenses	↓	Cr. as expense is ↓ing	2013	To Purchases Return A/c			4,500
						(Goods of Rs 4,500 were returned back to Vinod)			
On June 07, 2013 goods sold to Vansh for Rs 36,000 on credit	Vansh's A/c (Debtor)	Assets	↑	Dr. as Asset is ↑ing	June 07	Vansh	Dr.	36,000	
	Sales A/c	Revenue	↑	Cr. as Revenue is ↑ing	2013	To Sales A/c			36,000
						(Goods sold to Vansh for Rs 36,000)			
On June 15, 2013 goods of Rs 8,000 were returned by Vansh	Sales Return A/c	Revenue	↓	Dr. as Revenue is ↓ing	June 15	Sales Return A/c	Dr.	8,000	
	Vansh's A/c (Debtor)	Asset	↓	Cr. as Asset is ↓ing	2013	To Vansh			8,000
						(Goods of Rs 8,000 were returned by Vansh)			
On Aug.05, 2013 goods withdrawn for personal purpose(Cost Rs 500, Sale Price Rs 850)	Drawings A/c	Capital	↓	Dr. as Capital is ↓ing	Aug.05	Drawings A/c	Dr.	500	
	Purchases A/c	Expenses	↓	Cr.as expense is ↓ing	2013	To Purchases A/c			500
						(Goods withdrawn for the personal purpose)			

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Cash A/c	Asset	↑	Dr. as Asset is ↑ing		Cash A/c	Dr.	8,000	
Bank A/c	Asset	↓	Cr. as Asset is ↓ing		To Bank A/c			8,000
					(Cash withdrawn from bank)			

Case 3: On April 25, 2013 received cheque from Dinkar of Rs 25,000 and cheque was deposited in the bank on the same date.

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Bank A/c	Asset	↑	Dr. as Asset is ↑ing		Bank A/c	Dr.	25,000	
Dinkar (Debtor)	Asset	↓	Cr. as Asset is ↓ing		To Dinkar			25,000
					(Cheque received from Dinkar was deposited into the bank on the same day)			

Note: Cheque of Rs 18,800 received from Prakash on May 15, 2013.

In this case, only date of receipt of cheque is given but not of depositing it, so we will assume that the cheque is deposited in the bank on the same day. Therefore, it is treated as cheque received and deposited in the bank on the same day. It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Bank A/c	Asset	↑	Dr. as Asset is ↑ing	May 15	Bank A/c	Dr.	18,800	
Prakash (Debtor)	Asset	↓	Cr. as Asset is ↓ing	2013	To Prakash			18,800
					(Cheque received from Prakash and deposited in the bank on the same day)			

Case 4: On May 10, 2013 received cheque from Priyanka of Rs 14,000 and this cheque was deposited in the bank on May 12, 2013.

In this case, cheque of Rs 14,000 received from Priyanka (debtor) on May 10, 2013 was deposited in the bank on May 12, 2013. Always remember, whenever a cheque is not deposited in the bank on the same day, then this receipt of cheque is recorded as 'Cheque-in-hand' and is treated as an asset. In the books, it will be debited as a new asset is being created. Thereafter, when this cheque is deposited in the bank then we will debit Bank Account (*as asset is increasing*) and credit Cheque-in-hand (*as asset is decreasing*). It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
<i>Cheque is received from Priyanka on May 10, 2013</i>								
Cheque-in-hand A/c	Asset	↑	Dr. as Asset is ↑ing	May 10	Cheque-in-hand A/c	Dr.	14,000	
Priyanka (Debtor)	Asset	↓	Cr. as Asset is ↓ing	2013	To Priyanka			14,000
					(Cheque in hand received from Priyanka)			
<i>Cheque received from Priyanka was deposited into the bank on May 12, 2013</i>								
Bank A/c	Asset	↑	Dr. as Asset is ↑ing	May 12	Bank A/c	Dr.	14,000	
Cheque-in-hand A/c	Asset	↓	Cr. as Asset is ↓ing	2013	To Cheque-in-hand A/c			14,000
					(Cheque in hand was deposited into the bank)			

Case 5: Cheque of Rs 18,800 received from Prakash on May 15, 2013 dishonoured on May 17, 2013.

In this case, cheque received from Prakash is not cashed due to insufficient funds in Prakash's Bank Account. Therefore, Prakash again becomes the Debtor of the business and the increased Bank has to be reduced by the same amount. It is illustrated as:

Accounts	Nature of Accounts	Effect	Rule of Accounting	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
<i>Dishonour of cheque on May 17, 2013</i>								
Prakash (Debtor)	Asset	↑	Dr. as Asset is ↑ing	May 17	Prakash	Dr.	18,800	

Bank A/c	Asset	↓	Cr. as Asset is ↓ing	2013	To Bank A/c		18,800
					(Cheque received from Prakash was dishonoured)		

Compound Journal Entry

In case there are more than two accounts in a transaction, then sometimes instead of passing a number of Journal entries for a single transaction we prefer to pass a single journal entry. This single journal entry is termed as compound journal entry which involves more than two accounts in a transaction.

Example 1 Paid Rs 850 to Vikas in full settlement of his debt of Rs 1,000.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Vikas Dr.		1,000	
	To Cash A/c			850
	To Discount Received A/c			150
	(Paid to Vikas in full settlement of his debt)			

Example 2 Received Rs 1,320 from Rahul in full settlement of his dues of Rs 1,500.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c Dr.		1,320	
	Discount Allowed A/c Dr.		180	
	To Rahul			1,500
	(Received from Rahul in full settlement of his dues)			

Example 3 Salaries of Rs 2,500 and office expenses of Rs 3,100 are due for payment as on 31st Dec, 2013

--	--	--	--	--

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013	Salaries A/c	Dr.	2,500	
31 Dec	Office Expenses A/c	Dr.	3,100	
	To Expenses Payable			5,600
	(Salaries and office expenses payable)			

Example 4 On Sept. 18, 2013 Rajesh who owed Rs 20,000, become insolvent and 60 paise in rupee was realised from his estate.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013	Cash A/c	Dr.	12,000	
Sept.18	Bad Debts A/c	Dr.	8,000	
	To Rajesh			20,000
	(Rajesh who owed Rs 20,000, become insolvent and 60 paise in a rupee was realized from his estates)			

Opening Entry

It is an entry passed in Journal for bringing forward all previous year ledger balances of the assets, liabilities and capital in the books of current year. In this entry, we debit all the Assets Account individually and credit all the Liabilities Accounts individually. Difference in total of assets (Dr. Balances) and total of liabilities (Cr. Balances) is transferred as balancing figure to Capital Account. This Capital Account is credited in the opening entry. The opening entry can be passed as:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	All Assets A/c (individually)	Dr.		
	To All Liabilities A/c (individually)			

	To Capital A/c (<i>Balancing Figure</i>)			
	(Balances brought forwarded from last year)			

Example Pass the opening entry in the Journal of Satish on April 01, 2013.

Cash in hand Rs 12,600, Cash at bank Rs 15,500, Stock Rs 13,600, Machinery Rs 32,500, Furniture Rs 10,500, Prepaid Rent Rs 4,500, Salary Outstanding Rs 5,800, Loan from Vinit Rs 26,000, Interest Received in advance Rs 1,850, Owed to Rao Rs 8,500, Owed from Xavier Rs 7,200.

Solution

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
April 01	Cash-in-hand A/c	Dr.	12,600	
2013	Cash-at-bank A/c	Dr.	15,500	
	Stock A/c	Dr.	13,600	
	Machinery A/c	Dr.	32,500	
	Furniture A/c	Dr.	10,500	
	Prepaid Rent A/c	Dr.	4,500	
	Xavier	Dr.	7,200	
	To Salary Outstanding A/c			5,800
	To Loan from Vinit A/c			26,000
	To Interest received in advance A/c			1,850
	To Rao			8,500
	To Capital A/c (<i>Balancing Figure</i>)			54,250
	(Balances brought forwarded from last year)			

Trade Discount and Cash Discount

Trade Discount

It is a discount or reduction in the price of goods charged by the supplier from his customers. This discount is generally allowed by the supplier to his customers when they make bulk purchases. Trade discount is charged on the list price of the goods. *For example*, Rajesh sold goods of quantity 3,000 at the list price of Rs 10 each, allowing trade discount of 5%. In this case, trade discount is calculated as:

Particulars	Amount (Rs)
List Price (10 × 3,000)	30,000
Less: Trade Discount (5% × 30,000)	(1,500)
Invoice Price	28,500

Cash Discount

It is a discount allowed by the supplier (or creditor) of the goods to his customers for making immediate payment or for making payment within the credit period (*in days/weeks/months*) allowed by the supplier. *For example*, Rajesh sold goods to a customer for Rs 30,000 on credit. Terms of the credit were 5%, 25 days, this means, if payment is made within 25 days by the customer then he can avail cash discount of 5%. Therefore, cash discount is calculated as:

Particulars	Amount (Rs)
Amount payable as per Invoice	30,000
Less: Cash Discount (5% × 30,000)	(1,500)
Cash paid	28,500

Trade Discount versus Cash Discount

	Basis of Difference	Trade Discount	Cash Discount
(1)	Meaning	It is a discount or reduction in the price of goods charged by the supplier from his customers.	It is a discount allowed by the supplier (or creditor) of the goods to his customers for making immediate payment or for making payment within the credit period allowed by the supplier.
(2)	Objective	For promoting higher sales.	For encouraging earlier or prompt payments.
(3)	Allowed	At the time of purchase of goods.	At the time of making payment (either immediately or within the credit period).

(4)	Disclosed in Invoice	Disclosed in invoice, as deduction from the purchase price.	Not disclosed in invoice.
(5)	Account	It is never opened as an account in the ledgers.	It is opened as an account in the ledgers.
(6)	Changes	It can be changed depending upon the quantity of goods purchased.	It can be changed within the credit period in which payment is to be made.

Example Sold goods to Rocky at a list price of Rs 1,00,000 less trade discount at the rate of 25% and 2% cash discount and the payment was received next day.

Solution

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Rocky	Dr.	75,000	
	To Sales A/c (1,00,000-25% of 1,00,000)			75,000
	(Goods sold to Rocky at a trade discount of 25%)			
(ii)	Cash A/c	Dr.	73,500	
	Discount Allowed A/c	Dr.	1,500	
	To Rocky			75,000
	(Amount received from Rocky)			
	(75,000-1,500)			

Strengthen this topic TAKE A TOPIC TEST

SCROLL DOWN FOR THE NEXT TOPIC

Specific Entries

Objectives

After going through this lesson, you shall be able to understand the concept related to '**Entries for some specific transactions**'.

Some Specific Entries

Bad Debts: If any amount that was recoverable is not realised or is partially realised, then the amount not realised is a loss to the business and is regarded as Bad Debts. It is recorded as follows.

(1) When the full amount is not recovered

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bad Debts A/c	Dr.	xxx	
	To Debtor's A/c			xxx
	(Amount not recovered written off as bad debts)			

(2) When part of debt is not recovered

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c	Dr.	xxx	
	Bad Debts A/c	Dr.	xxx	
	To Debtor's A/c			xxx
	(Amount recovered and balance written off as bad debts)			

Example : Amit who owed us Rs 10,000 has become insolvent. He pays a compensation of 70 paise in a rupee.

Solution

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

	Cash A/c	Dr.		7,000	
	Bad Debts A/c			3,000	
	To Amit's A/c				10,000
	(Amount recovered and balance written off as bad debts)				

Bad Debts Recovered: Sometimes, bad debts previously written off are subsequently recovered. In such cases, the amount so received is a gain to the business as it was written off as loss earlier. The entry for this is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash or Bank A/c	Dr.	xxx	
	To Bad Debts Recovered A/c			xxx
	(Amount recovered previously written off as bad debts)			

Example : Received cash against bad debts written off last year Rs 8,000.

Solution

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c	Dr.	8,000	
	To Bad Debts Recovered A/c			8,000
	(Amount recovered previously written off as bad debts)			

Outstanding expenses: The expenses which should have been paid during the current year but have not been paid due to some reasons are termed as outstanding expenses.

For example, if an employee is paid salary at the rate of Rs 1,000 per month and during the year payment for only 11

months has been done then the salary for remaining one month will be termed as outstanding salary and it will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Salaries A/c	Dr.	1,000	
	To Outstanding Salaries A/c			1,000
	(Salaries remained unpaid)			

In the above entry, Outstanding Salaries Account is a liability. And since they are increasing, they have been credited. Salaries Account is an expense for the current period. It is immaterial whether it has been paid or not and as it is increasing, it will be debited.

Prepaid expenses: These expenses are related to the next year but have been paid during the current year in advance. The benefit of these expenses will be received during the next accounting period. *For example,* insurance premium amounting to Rs 6,000 has been paid on July 01, 2013 for one year and the books are closed on Dec. 31 every year. This means premium for six months relates to next accounting period or insurance premium for 6 months is prepaid i.e. Rs 3,000. The entry for recording such expense is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Prepaid Insurance A/c	Dr.	3,000	
	To Insurance A/c			3,000
	(Insurance paid in advance)			

In the above entry, insurance premium relating to next year has been paid in advance in the current year the benefits of which will be received in the next year. So, it is an asset for the firm. As increase in the assets is debited, Prepaid Insurance Account has been debited with the respective amount. On the other hand, insurance being an expense for the firm if separated from prepaid insurance will decrease and as decrease in expenses is credited, Insurance Account will be credited.

Accrued Income or Income Earned but not Received: Income which is earned but not received is called accrued income. It is different from outstanding income. *For example,* Mr. A receives his salary after every two months. This means if he works for two months say, November and December, then he will receive salary of these two months on 1st January. So, in this case salary for the month of November is regarded as accrued income on December 01. It is because although it has been earned but it is still not due for payment. It is recorded with the help of following Journal Entry.

Date	Particulars	L.F.	Debit	Credit
------	-------------	------	-------	--------

			Amount (Rs)	Amount (Rs)
	Accrued Income A/c	Dr.		
	To Income A/c			
	(Income earned but not yet due)			

Income Received in Advance or Unearned Income: Income received but not earned during the accounting period is called income received in advance or unearned income.

For example: If we recover Rs 2,50,000 on account of rent against a let out building with rent of Rs 20,000 per month, then Rs 10,000 (i.e. 2,50,000 – 2,40,000) is income received in advance. It is recorded with the help of following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Income A/c	Dr.		
	To Income Received in Advance A/c			
	(Income earned but not yet due)			

Interest on Capital: Interest on capital is an expense for the business, so it is charged from the profits of the firm. The balance profits are the real profits of the firm and represent the true efficiency of the business. And according to the rules of accounting, interest being an expense for the business will be debited (increase in the expenses) while it is a gain for the proprietor in the form of increased capital. As we know, decrease in capital is debited and increase is credited, so the increase in capital will be credited. It is recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Interest on Capital A/c	Dr.	xxx	
	To Capital A/c			xxx
	(Interest on capital provided)			

--	--	--	--	--

Interest on Drawings: Business not only allows interest on capital but also charges for the drawings made by the proprietor. Such an interest is an income for the business and loss for the proprietor. It is recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Drawings A/c	Dr.	xxx	
	To Interest on Drawings A/c			xxx
	(Interest on drawings charged)			

In the above entry, interest on drawings being income for the business is credited as increase in income and gains is credited while Drawings Account being representative account of capital account is debited as capital is decreasing by the amount of interest being charged. Here, drawings account has been used instead capital account just to make accounts more comprehensible and specific even though use of capital account is not wrong.

Loss by Theft or Fire: The business may incur losses due to theft or fire at its place of business. In both the cases, the real outcome will be loss to the business.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Loss by Theft or Fire A/c	Dr.	xxx	
	To Purchases A/c			xxx
	(Loss of goods by theft or fire)			

In the above entry, Loss by Theft or Fire Account is debited as loss is an expense which is increasing and accordingly it is debited. And Purchases Account will be credited because stock decreases with the value of loss of goods. The actual amount of loss and its treatment varies with the situation and is as follows.

1) When goods are fully insured, loss is borne by the insurance company

In case the goods are insured, then loss by theft or fire is made good by the insurance company. In such cases, insurance company or insurance claim becomes the asset for the firm and will make payment in future. Now, till the time amount is received it is shown as an asset in the Balance Sheet. Due to such loss, stock of goods gets reduced so it is credited and Insurance Claim Account or Insurance Company Account, being increase in asset, is debited. The entry for this is as follows.

Date	Particulars	L.F.	Debit	Credit
------	-------------	------	-------	--------

			Amount (Rs)	Amount (Rs)
	Insurance Co. or Insurance Claim A/c	Dr.	xxx	
	To Loss by Theft or Fire A/c			xxx
	(Loss of goods by theft or fire)			

2) When goods are not insured

In case the goods are not insured, then whole of the loss is transferred to Profit & Loss Account as it is borne by the firm itself. It is recorded with help of following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Profit & Loss A/c	Dr.	xxx	
	To Loss by Theft or Fire A/c			xxx
	(Loss transferred to P & L A/c)			

3) When goods are partly insured

In case the goods are partly insured, then the treatment would be a combination of treatments as if they are insured and if they are uninsured. This will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Insurance Co. or Insurance Claim A/c	Dr.	xxx	
	Profit & Loss A/c	Dr.	xxx	
	To Loss by Theft or Fire A/c			xxx
	(Claim received for Loss of goods by theft or fire and remaining loss transferred to P & L A/c)			

In the above entry, the share of loss borne by the insurance company is debited to Insurance Company Account with the amount due to be received from insurance company and the remaining loss borne by the firm is debited to the Profit and Loss Account.

Note: In the above cases, when the amount due from the insurance company, in respect of insurance claim, is received, it is journalised as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bank A/c	Dr.	xxx	
	To Insurance Co. or Insurance Claim A/c			xxx
	(Insurance Claim received)			

Goods and Services Tax (GST): It is an indirect tax which has integrated various taxes like Sales tax, excise tax, VAT, etc., into one single tax for the entire nation. By replacing the various archaic tax structures, GST is levied at every stage of the supply chain of the goods or services from production to the last retail level. GST has been discussed in detail in previous chapter. The accounting treatment of GST in the books of accounts is as follows:

Journal Entries for the accounting of GST Paid or Collected					
Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)	
1.	Purchase of Fixed Assets				
	Fixed Assets A/c	Dr.			
	Input CGST A/c	Dr.			
	Input SGST A/c	Dr.			
	Input IGST A/c	Dr.			

	To Vendor's A/c				
	(Being fixed asset purchased and input CGST, input SGST and input IGST claimed)				
2.	Purchase of Goods				
	Purchases A/c	Dr.			
	Input CGST A/c	Dr.			
	Input SGST A/c	Dr.			
	Input IGST A/c	Dr.			
	To Creditor's A/c				
	(Being goods purchased plus input CGST, SGST and IGST)				
3.	Sale of Goods				
	Debtor's A/c	Dr.			
	To Sales A/c				
	To Output CGST A/c				
	To Output SGST A/c				
	To Output IGST A/c				
	(Being goods sold plus output CGST, output SGST and output IGST)				
4.	Return of goods purchased				

	Creditor's A/c	Dr.			
	To Purchases Return A/c				
	To Input CGST A/c				
	To Input SGST A/c				
	To Input IGST A/c				
	(Being goods purchased returned and input GST reversed.)				
5.	Return of goods sold				
	Sales Return A/c	Dr.			
	Output CGST A/c	Dr.			
	Output SGST A/c	Dr.			
	Output IGST A/c	Dr.			
	To Debtor's A/c				
	(Being goods sold returned and output GST reversed.)				
6.	Journal entry for expenses				
	Printing and Stationery Expenses A/c	Dr.			
	Telephone Expenses A/c				

	Input CGST A/c	Dr.			
	Input SGST A/c	Dr.			
	To Cash/ Bank A/c				
	(Being stationery purchased and telephone bill for the ___ month paid and input CGST and SGST claimed)				
7.	Journal entry for Drawings of goods by proprietor, goods distributed as free samples, goods destroyed by fire, goods stolen etc.				
	Drawings A/c	Dr.			
	Advertisement A/c	Dr.			
	Loss by fire A/c	Dr.			
	Loss by Theft A/c	Dr.			
	To Purchases A/c				
	To Input CGST A/c				
	To Input SGST A/c				
	To Input IGST A/c				
	(Being goods withdrawn for personal use, destroyed, lost by fire and Input GST reversed)				
8.	Setting off input CGST against Output CGST				
	Output CGST A/c	Dr.			

	To Input CGST A/c				
	(Being the Input CGST set off against Output CGST)				
9.	Setting off input CGST against Output IGST				
	Output IGST A/c	Dr.			
	To Input CGST A/c				
	(Being the Input CGST set off against Output IGST)				
10.	Setting off input SGST against Output SGST				
	Output SGST A/c	Dr.			
	To Input SGST A/c				
	(Being the Input SGST set off against Output SGST)				
11.	Setting off input SGST against Output IGST				
	Output IGST A/c	Dr.			
	To Input SGST A/c				
	(Being the Input SGST set off against Output IGST)				
12.	Setting off input IGST against Output IGST				
	Output IGST A/c	Dr.			

	To Input IGST A/c				
	(Being the Input IGST set off against Output IGST)				
13.	Setting off Debit balance in input CGST, input SGST against credit balance in Output IGST				
	Output IGST A/c	Dr.			
	To Input CGST A/c				
	To Input SGST A/c				
	(Being the Input CGST and input SGST set off against Output IGST)				
14.	Payment of GST into Government Account				
	Output CGST A/c	Dr.			
	Output SGST A/c	Dr.			
	Output IGST A/c				
	To Bank A/c or Electronic Cash Ledger A/c				
	(Being GST payable deposited into Government Account)				

Income Tax: The profits of business in case of sole proprietorship and partnership firm are subject to income tax which is to be paid by the proprietor. So, the payment of income tax is recorded by debiting the Capital Account. The Journal Entry for the same is:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Capital A/c	Dr.		

	To Cash/Bank A/c			
	(Income tax paid)			

And in case refund is received due to excess tax paid to income tax department, this increases the cash balance and the capital balance simultaneously. So, this will be recorded as follows:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Cash A/c	Dr.		
	To Capital A/c			
	(Refund of Income tax)			

Note: The same will be the treatment in case any interest is received on advance payment of income tax as it will increase the cash as well as capital balance.

Treatment of Value Paid Parcel (VPP): VPP is same as purchase of goods, difference lies in the method of sale. Seller sends the goods through Post Office. Buyer pays the value of goods to the Post Office and gets the delivery of goods. In this case too, Purchases Account will be debited as we do in case of purchase of goods. Suppose, MN Ltd. received a VPP for goods worth Rs 570 and sent an employee with Rs 600 for the collection of goods. The employee paid Rs 15 for the conveyance and returned the balance.

Solution:

Receiving VPP means purchasing goods, so Purchases A/c will be debited for the purchases. Conveyance charges, being a part of cartage, are expenses so it will be debited.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Purchases A/c	Dr.	570	
	Cartage A/c	Dr.	15	
	To Cash/Bank A/c			585
	(VPP collected)			

Some Miscellaneous Transactions

Depreciation: It is permanent and continuing decrease in the value of an asset on account of wear and tear and passage of time. It is a loss for the business and we know that increase in expenses and losses are debited, so Depreciation Account will be debited while the asset being depreciated gets reduced, so it will be credited (decrease in assets is credited).

For Example, Provide 10% depreciation on furniture costing Rs 30,000. It will be recorded as follows.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Depreciation A/c	Dr.	3,000	
	To Furniture A/c			3,000
	(Depreciation provided on furniture)			

Here, depreciation being loss for business is increasing, so is debited while furniture being asset for the business is decreasing and accordingly it is credited (decrease in assets is credited)

Distribution of goods as free samples: Goods may be distributed as free samples as a tool for advertising just to increase the sales. Samples Account is of the same nature as that of Advertisement Account. And it is recorded by passing the following Journal Entry.

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Advertisement A/c or Samples A/c	Dr.	xxx	
	To Purchases A/c			xxx
	(Goods distributed as free samples)			

Here, distribution of goods for free is an expense for the business and as the expenses are increasing, this account will be debited and on the other side distribution of goods reduces our stock. So, it will be proper to credit Purchases Account.

Goods used to make an Asset: When goods are used to make/construct an asset, value of the asset increases. Therefore, Asset Account is debited. The entry for this is:

Date	Particulars	L.F.	Debit	Credit
------	-------------	------	-------	--------

			Amount (Rs)	Amount (Rs)
	Asset A/c	Dr.	xxx	
	To Purchases A/c			xxx
	(Goods used to make an asset)			

Treatment of Goods withdrawn for personal use: We already know that the entity of a business is separate from its owners so any goods withdrawn by the owner for his/her personal use is debited to an account by the name of drawings. If need be, the businesses providing interest on capital may as well charge interest on drawings which constitutes an income for the business. For e.g.: Ramesh owns Elegant enterprises which purchases clothes for sale so if he withdraws clothes for his family then it will be considered as drawings by him. The accounting treatment for drawings is as follows.

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Drawings A/c To Purchases A/c (Being goods withdrawn for personal use)	Dr.			

Expenditure on the Installation of Machinery and on the Construction of Building: Machinery and Building are the fixed assets of a business. Any expenditure incurred on the carriage and installation of machinery like freight, wages etc. is treated as 'Capital Expenditure' and therefore, increases the cost of the asset and is debited to the Particular Asset Account and not to the Particular Expense Account. Like, expenditure incurred for the construction of building such as purchase of building material and payment of wages are also capital expenditures and debited to Building Account. The entry for recording these expenses is:

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Related Asset A/c	Dr.		xxx	
	To Cash / Bank A/c				xxx
	(Expenses incurred on related asset)				

Strengthen this topic TAKE A TOPIC TEST

SCROLL DOWN FOR THE NEXT TOPIC

Comprehensive Examples-I

Practical IllustrationsExample 1: Record the following transactions in the Journal of Raghu.

2013	Transactions	Amount (Rs)
Nov.01	Commenced business with cash	4,00,000
Nov.04	Goods purchased from Ram for cash	80,000
Nov.07	Goods purchased from Mohit	25,000
Nov.08	Goods returned to Mohit	5,000
Nov.08	Sold goods to Ramesh	20,000
Nov.10	Sold goods to Raj for Cash	7,000
Nov.12	Paid Commission	1,000

Solution:

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Nov.01	Cash A/c	Dr.	4,00,000	
	To Capital A/c			4,00,000
	(Commenced business with cash)			
Nov.04	Purchases A/c	Dr.	80,000	
	To Cash A/c			80,000
	(Goods purchased from Ram for cash)			

Nov.07	Purchases A/c	Dr.		25,000	
	To Mohit				25,000
	(Goods purchased from Mohit)				
Nov.08	Mohit	Dr.		5,000	
	To Purchases Return A/c				5,000
	(Goods returned to Mohit)				
Nov.08	Ramesh	Dr.		20,000	
	To Sales A/c				20,000
	(Goods sold to Ramesh)				
Nov.10	Cash A/c	Dr.		7,000	
	To Sales				7,000
	(Goods sold to Raj for Cash)				
Nov.12	Commission A/c	Dr.		1,000	
	To Cash A/c				1,000
	(Commission paid)				

Example 2: Journalise the following transactions in the books of Rajesh.

2013	Transactions	Amount (Rs)
Dec.01	Started business with cash	2,50,000
Dec.04	Cash Purchases	52,000
Dec.08	Sold goods to Amit	20,000
Dec.13	Amit returned defective goods	1,500
Dec.17	Cash received from Amit in full settlement	17,800
Dec.20	Paid Insurance Premium	2,500
Dec.24	Paid Life Insurance Premium of Rajesh	1,700
Dec.27	Bought goods from Ramesh, list price of Rs 12,000 less 20% trade discount	–
Dec.28	Paid to Ramesh	5,000
Dec.31	Paid salaries Rs 8,000, travelling expenses Rs.1,800 and Rent Rs 5,400	–

Solution:

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Dec.01	Cash A/c	Dr.	2,50,000	
	To Capital A/c			2,50,000
	(Commenced business with cash)			
Dec.04	Purchases A/c	Dr.	52,000	
	To Cash A/c			52,000

	(Goods purchased for cash)				
Dec.08	Amit	Dr.		20,000	
	To Sales A/c				20,000
	(Goods sold to Amit)				
Dec.13	Sales Return A/c	Dr.		1,500	
	To Amit				1,500
	(Goods returned by Amit)				
Dec.17	Cash A/c	Dr.		17,800	
	Discount Allowed A/c	Dr.		700	
	To Amit				18,500*
	(Cash received from Amit)				
Dec.20	Insurance Premium A/c	Dr.		7,000	
	To Cash A/c				7,000
	(Insurance premium paid)				
Dec.24	Drawings A/c	Dr.		1,700	
	To Cash A/c				1,700
	(Life Insurance premium paid)				

Dec.27	Purchases A/c	Dr.		9,600	
	To Ramesh				9,600**
	(Goods purchased less trade discount)				
Dec.28	Ramesh	Dr.		5,000	
	To Cash A/c				5,000
	(Amount paid to Ramesh)				
Dec.31	Salaries A/c	Dr.		8,000	
	Travelling Expenses A/c	Dr.		1,800	
	Rent A/c	Dr.		5,400	
	To Cash A/c				15,200
	(Expenses paid)				

*Total sales to Amit	:	20,000
Less: Sales return	:	(1,500)
Net Sales	:	18,500

Out of this, Rs 17,800 is received in full settlement means Rs 700 (i.e. 18,500 – 17,800) is the discount allowed to him.

** Purchases from Ramesh Rs 12,000 at a trade discount of 20%. So, the net amount will be recorded in the books as the amount of trade discount is not shown in the books of accounts.

Example 3: The following balance appeared in the books of M/S Meghnath on 1st January, 2014.

Assets:- Cash Rs 25,000; Bank Rs 15,000; Stock Rs 70,000; Furniture Rs 7,800; Debtors Rs 35,000 (Shankar: Rs 7,000; Raj: Rs 10,000; Ram: Rs 18,000)

Liabilities:- Loan Rs 15,000; Creditors Rs 17,000 (Mohan: Rs 9,000; Roy: Rs 8,000)

The following transactions took place during January in year, 2014.

2014	Transactions
Jan.03	Bought goods from Monika for Rs 19,000 at a trade discount of 10% and cash discount of 2%. Paid 50% of amount immediately
Jan.05	Sold goods to Raj for 5,000
Jan.07	Received Rs 14,500 from Raj in full settlement of his account
Jan.09	Cash deposited into his bank Rs 15,000
Jan.15	Cheque received from Shankar in full settlement of his account for Rs 6,950 and immediately deposited into bank
Jan.17	Cheque received from Ram Rs 7,000
Jan.19	Cheque received from Ram deposited into bank
Jan.22	Cheque received from Shankar dishonoured
Jan.25	Ram became insolvent and 70 paise in a rupee could be received from his estate
Jan.31	Proprietor withdrew for private use Rs 3,000 from office and Rs 2,000 from bank

Solution:

Date 2014	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Jan.01	Cash A/c	Dr.	25,000	
	Bank A/c	Dr.	15,000	
	Stock A/c	Dr.	70,000	
	Furniture A/c	Dr.	7,800	

	Shankar	Dr.		7,000	
	Raj	Dr.		10,000	
	Ram	Dr.		18,000	
	To Loan A/c				15,000
	To Mohan				9,000
	To Roy				8,000
	To Capital A/c (<i>balancing figure</i>)				1,20,800
	(Assets and liabilities brought forward)				
Jan.03	Purchases A/c	Dr.		17,100	
	To Cash A/c*				8,379
	To Discount Received A/c				171
	To Monika				8,550
	(Goods purchased and discount received)				
Jan.05	Raj	Dr.		5,000	
	To Sales A/c				5,000
	(Goods sold to Raj)				
Jan.07	Cash A/c	Dr.		14,500	
	Discount Allowed A/c	Dr.		500	
	To Raj				15,000

	(Amount received from Raj)				
Jan.09	Bank A/c	Dr.		15,000	
	To Cash A/c				15,000
	(Cash deposited into bank)				
Jan.15	Bank A/c	Dr.		6,950	
	Discount Allowed A/c	Dr.		50	
	To Shankar				7,000
	(Cheque received and deposited in bank)				
Jan.17	Cheques-in-hand A/c	Dr.		7,000	
	To Ram				7,000
	(Cheque received)				
Jan.19	Bank A/c	Dr.		7,000	
	To Cheques-in-hand				7,000
	(Cheque deposited into bank)				
Jan.22	Shankar	Dr.		7,000	
	To Bank A/c				6,950
	To Discount Allowed A/c				50
	(Cheque dishonoured and discount written off)				

Jan.25	Cash A/c	Dr.		7,700	
	Bad debts A/c	Dr.		3,300	
	To Ram A/c (18,000 – 7,000)				11,000
	(Cash received and bad debts written off)				
Jan.31	Drawings A/c	Dr.		5,000	
	To Cash A/c				3,000
	To Bank A/c				2,000
	(Proprietor withdrew cash from business and from Bank account for personal use)				

*Total Purchases from Monika:	Rs	19,000
Less: Trade discount:	Rs	1,900
Net Amount of Purchases:	Rs	17,100

Out of this 50% of amount is paid immediately with a cash discount of 2% i.e. 8,550 minus 2% of 8,550= 8,379
Note: Cash discount is applied only on the cash payment, it will not be availed on credit purchases or credit sales.

Example 4: Pass Journal entries for the following.

- (i) Provide 10% depreciation on furniture costing Rs 70,000
- (ii) Interest on capital is to be provided at the rate of 10% of the capital amounting Rs 10,00,000
- (iii) Received Rs 18,000 from Sohan which were earlier written off as bad debts
- (iv) Bricks Rs 5,00,000; Timber Rs 2,00,000; Cement Rs 75,000 purchased for the construction of building. The payment was made by cheque.
- (v) Proprietor withdrew for his personal use cash Rs 25,000 and goods worth Rs 15,000
- (vi) Goods worth Rs 2,00,000 were destroyed by fire. Insurance Company admitted and paid a claim for 60% amount.
- (vii) Purchased a 'horse' for business for Rs 7,000
- (viii) Paid landlord Rs 15,000 for rent. One third of the building is occupied by proprietor for residential use.

Solution:

Date 2014	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Depreciation A/c	Dr.	7,000	
	To Furniture A/c			7,000
	(Depreciation provided on furniture)			
(ii)	Interest on Capital A/c	Dr.	1,00,000	
	To Capital A/c			1,00,000
	(Interest provided on capital)			
(iii)	Cash A/c	Dr.	18,000	
	To Bad debts recovered A/c			18,000
	(Cash received from Sohan previously written off as bad debts)			
(iv)	Building A/c*	Dr.	7,75,000	
	To Bank A/c			7,75,000
	(Bricks, Timber, Cement purchased for building)			
(v)	Drawings A/c	Dr.	40,000	
	To Cash A/c			25,000
	To Bank A/c			15,000

	(Cash and Goods drawn for personal use)				
(vi)	Loss By Fire A/c	Dr.		2,00,000	
	To Purchases A/c				2,00,000
	(Goods destroyed by fire)				
	Insurance Company	Dr.		2,00,000	
	To Loss By Fire A/c				2,00,000
	(Insurance claim lodged)				
	Bank A/c	Dr.		1,20,000	
	Profit & Loss A/c	Dr.		80,000	
	To Insurance Company				2,00,000
	(Amount received from Insurance company)				
(vii)	Livestock A/c	Dr.		7,000	
	To Cash A/c				7,000
	(A horse purchased for business)				
(viii)	Rent A/c (2/3 rd of 15,000)	Dr.		10,000	
	Drawings A/c	Dr.		5,000	
	To Cash A/c				15,000

	(Rent paid to landlord, 1/3 rd being occupied for residential purposes)				

*Expenditure on bricks, cement, etc for the construction of building will be debited to building account as they are capital expenditure.

Example 5 Journalise the following transactions in the books of Karan.

- (1) Bought goods for Rs 22,000.
- (2) Purchased goods from Rahul of the list price Rs 32,000 with a trade discount of 10%.
- (3) Bought goods of the list price of Rs 60,000 from Jagat less 25 % trade discount and 5% cash discount and paid 40% by the cheque.
- (4) Sold goods to Vansh costing Rs 20,000 at a profit of 30% on sales, less 20% trade discount and charged CGST and SGST @ 6% each; also paid cartage of Rs 150(payable by customer)
- (5) Sold goods to Sandeep for Rs 32,000 against a current dated cheque.
- (6) Rejected 10% of the goods supplied by Rahul.
- (7) Paid Jagat Rs 25,500 on account in full settlement.
- (8) Vansh got bankrupt, only 40 paisa in rupee was recovered from his official receiver.

Solution

Books of Karan					
Journal					
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Purchase A/c	Dr.		22,000	
	To Cash A/c				22,000
	(Purchase goods with cash)				
(2)	Purchases A/c	Dr.		28,800	
	To Rahul				28,800
	(Goods purchased on credit at List price less Trade Discount)				

(3)	Purchases A/c	Dr.	45,000	
	To Jagat			45,000
	(Goods purchased on credit)			
	Jagat	Dr.	18,000	
	To Bank A/c			17,100
	To Discount Received A/c			900
	(Cash paid to Jagat and the discount received)			
(4)	Vansh	Dr.	23,464	
	To Sales A/c			20,950
	To Output CGST A/c To Output SGST A/c			1,257 1,257
	(Goods sold to Vansh on credit)			
(5)	Bank A/c	Dr.	32,000	
	To Sales A/c			32,000
	(Sold goods against a current dated cheque)			
(6)	Rahul	Dr.	2,880	
	To Purchase Return A/c			2,880
	(10% of the goods supplied by Rahul were			

	returned)			
(7)	Jagat	Dr.	27,000	
	To Bank A/c			25,500
	To Discount Received A/c			1,500
	(Paid to Jagat as full and final settlement)			
(8)	Cash A/c	Dr.	10,044	
	Bad Debts A/c	Dr.	15,066	
	To Vansh			25,110
	(Cash withdrawn from the bank)			

Example 6 Journalise the following transactions in the books of Rohtash.

- (1) Purchased Machinery from Ravi of Rs 10,000 and paid him by a bank draft obtained from a bank of Rs 10,080
- (2) Purchased 200 bonds @ Rs 90 each and paid through cheque.
- (3) Received Rs 4,000 for a Bill of exchange from Harish and deposited into the bank.
- (4) Purchased a typewriter for Rs 3,000 and spent Rs 250 on its repair.
- (5) Sunil owes Rs 1,000, his Account was settled by a cheque and Rs 200 were charged as interest.
- (6) Received money order of Rs 125 from Ravinder.
- (7) Paid fire insurance of office building in advance Rs 1,200.
- (8) Provide Interest on Capital (Rs 1,00,000) at 12% p.a. for 6 months.

Solution

Books of Rohtash				
Journal				
Date	Particulars	L.F.	Debit Amount	Credit Amount

			(Rs)	(Rs)
(1)	Machinery A/c	Dr.	10,000	
	Bank Charges A/c	Dr.	80	
	To Bank A/c			10,080
	(Machinery purchased and paid through a bank draft)			
(2)	Investment in Bonds A/c	Dr.	18,000	
	To Bank A/c			18,000
	(Investments were made in the 200 bonds @ Rs 90 each)			
(3)	Cash A/c	Dr.	4,000	
	To Bills Receivable A/c			4,000
	(Cash received from Harish against the bill)			
	Bank A/c	Dr.	4,000	
	To Cash A/c			4,000
	(Cash was deposited into the bank)			
(4)	Typewriter A/c	Dr.	3,250	
	To Cash A/c			3,250
	(Purchased a typewriter for Rs 3,000 and Rs 250 were spend on its repair)			

(5)	Bank A/c	Dr.	1,200	
	To Sunil			1,000
	To Interest A/c			200
	(Sunil's account was settled and Rs 200 was charged as interest)			
(6)	Cash A/c	Dr.	125	
	To Ravinder			125
	(Money order received from Ravinder)			
(7)	Fire Insurance A/c	Dr.	1,200	
	To Cash A/c			1,200
	(Fire Insurance was paid in advance)			
(8)	Interest on Capital A/c	Dr.	6,000	
	To Capital A/c			6,000
	(Interest charged on the capital)			

Example 7 Journalise the following transactions in the books of Narang.

- (1) Brought forwarded balances of Cash Rs 25,000, Stock Rs 20,000 and Bank Rs 18,000 from the last year.
- (2) Received rent of Rs 1,800 from subletting.
- (3) Purchased an old car of Rs 80,000 for his daughter.

(4) Rent of Rs 3,000 was due to landlord.

(5) Received from Mahesh Rs 500, his account was written off as bad during the last year.

(6) Cash of Rs 1,250 was embezzled by a worker.

(7) Received a V.P.P. for Rs 990, sent a peon to take delivery and he was paid cartage of Rs 10.

(8) Goods of Rs 850 were given as charity during the year.

Solution

Books of Narang				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Cash A/c	Dr.	25,000	
	Bank A/c	Dr.	18,000	
	Stock A/c	Dr.	20,000	
	To Capital A/c			63,000
	(Brought forwarded balances of Cash, Stock and Bank from the last year)			
(2)	Cash A/c	Dr.	1,800	
	To Rent Received A/c			1,800
	(Rent received from the sub tenant)			
(3)	Drawings A/c	Dr.	80,000	
	To Cash A/c			80,000
	(Purchased an old car for his daughter)			

(4)	Rent A/c	Dr.	3,000	
	To Rent Outstanding A/c			3,000
	(Rent due to landlord)			
(5)	Cash A/c	Dr.	500	
	To Bad debt recovered A/c			500
	(Bad debt written off last year now recovered)			
(6)	Loss by Embezzlement A/c	Dr.	1,250	
	To Cash A/c			1,250
	(Cash embezzled by worker)			
(7)	Purchases A/c	Dr.	990	
	Cartage A/c	Dr.	10	
	To Cash A/c			1,000
	(Goods purchased and the cartage was paid)			
(8)	Charity A/c	Dr.	850	
	To Purchases A/c			850
	(Goods were given as charity during the year)			

Example 8 Journalise the following transactions in the books of Amanjeet.

Date	Particulars
2013	
April 01	Brought forwarded balance of the last year:
	Assets: Cash Rs 10,000, Bank Rs 15,000 and Stock Rs 5,000
	Liabilities: Loan Rs 8,000
April 12	Paid into bank Rs 5,000
April 15	Purchased Machinery and gave payment through cheque of Rs 20,000
April 19	Insurance paid Rs 10,000, out of which Rs 5,000 relates to the next year
April 22	Bank loan of Rs 8,000 was repaid by issuing 8% Debentures
April 25	Sold goods to Manjeet for Rs 15,000 and collected CGST and SGST @ 9% each on it.
April 28	Paid Income tax of Rs 2,000.
April 30	Purchased a Motor Bike of Rs 12,000 for the personal use

Solution

Books of Amanjeet				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013				

April 01	Cash A/c	Dr.	10,000	
	Bank A/c	Dr.	15,000	
	Stock A/c	Dr.	5,000	
	To Loan A/c			8,000
	To Capital A/c			22,000
	(Brought forwarded balances of Cash, Stock, Bank and Loan from the last year)			
April 12	Bank A/c	Dr.	5,000	
	To Cash A/c			5,000
	(Cash deposited into bank)			
April 15	Machinery A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Purchased machinery by cheque)			
April 19	Insurance A/c To Cash A/c (Being payment made on account of insurance)	Dr.	10,000	10,000
April 19	Prepaid Insurance A/c To Insurance A/c (Being insurance premium for next year paid in advance)	Dr.	5,000	5,000
April 22	Bank Loan A/c	Dr.	8,000	

	To 8% Debentures A/c			8,000
	(Bank loan repaid by issuing debentures)			
April 25	Manjeet	Dr.	17,700	
	To Sales A/c			15,000
	To Output CGST A/c To Output SGST A/c			1,350 1,350
	(Sold goods to Manjeet and collected VAT)			
April 28	Drawings A/c	Dr.	2,000	
	To Bank A/c			2,000
	(Income Tax paid by a cheque)			
April 30	Drawings A/c	Dr.	12,000	
	To Cash A/c			12,000
	(Purchased Motor Bike for the personal use)			

Example 9 Journalise the following transactions in the books of Vani.

- (1) Received an order from Kuldeep of Rs 50,000 for supplying goods and received Rs 30,000 as advance along with the order.
- (2) Goods of Rs 50,000 were supplied to Kuldeep against the order.
- (3) Received a V.P.P. from Tusshar for Rs 2,225, sent a peon to take delivery and he was paid cartage of Rs 25.
- (4) Purchased goods from Suresh for Rs 65,000 and supplied it to Satish for Rs 85,000.
- (5) Satish returned the goods of Rs 17,000 which in turn returned back to Suresh on the same day itself.

(6) Purchased a horse for Rs 5,000 and paid carriage of Rs 3,000 for the same.

(7) Cash of Rs 12,000 received from Rishi on behalf of Chetan.

(8) Goods of Rs 5,000 were distributed as free samples.

Solution

Books of Vani				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Cash A/c	Dr.	30,000	
	To Advance from Kuldeep			30,000
	(Advance against an order received from Kuldeep)			
(2)	Advance from Kuldeep A/c	Dr.	30,000	
	Kuldeep	Dr.	20,000	
	To Sales A/c			50,000
	(Goods supplied to Kuldeep against his order)			
(3)	Purchases A/c	Dr.	2,225	
	Cartage A/c	Dr.	25	
	To Tusshar			2,250
	(VPP purchased and the cartage was paid)			
(4)	Purchases A/c	Dr.	65,000	

	To Suresh			65,000
	(Goods purchased from Suresh)			
	Satish	Dr.	85,000	
	To Sales A/c			85,000
	(Goods sold to Satish)			
(5)	Sales Return A/c	Dr.	17,000	
	To Satish			17,000
	(Goods returned by Satish)			
	Suresh*	Dr.	13,000	
	To Purchase Return A/c			13,000
	(Goods returned to Suresh)			
(6)	Livestock A/c	Dr.	8,000	
	To Cash A/c			8,000
	(Purchased horse and paid carriage on it for business use)			
(7)	Cash A/c	Dr.	12,000	
	To Chetan			12,000
	(Cash received from Rishi on behalf of Chetan)			

(8)	Free Samples A/c	Dr.	5,000	
	To Purchases A/c			5,000
	(Goods distributed as free samples)			

Note*Goods of invoice price of Rs 17,000 were returned by Satish.

% of goods returned = $\text{Rs } 17,000 / \text{Rs } 85,000 = 20\%$

Therefore, cost of goods returned = 20% of goods purchased = $20\% \times \text{Rs } 65,000 = \text{Rs } 13,000$

Strengthen this topic TAKE A TOPIC TEST

SCROLL DOWN FOR THE NEXT TOPIC

Comprehensive Examples-II

Comprehensive Questions

Example 1: Journalise the following transactions in the books of a trader.

On 1st April, 2013,

Debit balances: Cash Rs 25,000; Bank Rs 32,000; Stock Rs 45,000; Debtors- Meenu Rs 4,000, Jagat Rs 8,500; Building: Rs 7,00,000 and Furniture Rs 75,000

Credit Balances: Bank Loan Rs 1,00,000; Creditors- Ajit Rs 4,500 Vikramajit Rs 9,800

2013	Transactions
April 02	Bought a horse for Rs 10,000 and a carriage for Rs 2,000 for delivering goods to customers
April 05	Received order for supply of goods valued Rs 20,000
April 07	Amount received from sale of old newspapers, magazines and scraps Rs 330
April 10	Goods worth Rs 1,800 destroyed in transit and claim for the same was filed with Transport company
April 13	Cash paid to Ajit Rs 4,388 in full settlement of his account
April 15	Received cash from transport company in full settlement of claim
April 18	The horse bought above died , its carcass was sold for Rs 2,500
April 25	Sold goods worth Rs 10,000 at a trade discount of 10%
April 28	Received from travelling salesman Rs 4,600 for goods sold by him after deducting his travelling

	expenses of Rs 400
April 30	Purchased 100 shares of MN Ltd. at Rs 100 per share and the payment was made by cheque, brokerage paid Rs 300

□

Solution:

Date 2013	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
April 01	Cash A/c	Dr.	25,000	
	Bank A/c	Dr.	32,000	
	Stock A/c	Dr.	45,000	
	Meenu	Dr.	4,000	
	Jagat	Dr.	8,500	
	Building A/c	Dr.	7,00,000	
	Furniture A/c	Dr.	75,000	
	To Bank Loan A/c			1,00,000
	To Ajit			4,500
	To Vikramajit			9,800
	To Capital A/c (<i>Balancing figure</i>)			7,75,200
	(Balance brought forward)			
April 02	Livestock A/c	Dr.	10,000	
	Carriage A/c	Dr.	2,000	

	To Cash A/c			12,000
	(Horse and carriage purchased)			
April 05	No Entry			
April 07	Cash A/c	Dr.	330	
	To Miscellaneous Receipts A/c			330
	(Amount received from sale of newspapers, magazines etc.)			
April 10	Transport Claim A/c	Dr.	1,800	
	To Purchases A/c			1,800
	(Claim lodged with Transport company)			
April 13	Ajit A/c	Dr.	4,500	
	To Cash A/c			4,388
	To Discount Received A/c			112
	(Cash paid to Ajit)			
April 15	Cash A/c	Dr.	1,800	
	To Transport Claim A/c			1,800
	(Cash received against the claim)			

April 18	Cash A/c	Dr.		2,500	
	Profit & Loss A/c	Dr.		7,500	
	To Livestock A/c				10,000
	(Horse died and carcass sold)				
April 25	Cash A/c	Dr.		9,000	
	To Sales A/c				9,000
	(Sale of goods at a trade discount)				
April 28	Cash A/c	Dr.		4,600	
	Travelling Expenses A/c	Dr.		400	
	To Sales A/c				5,000
	(Cash received from salesman)				
April 30	Investment in Shares A/c	Dr.		10,300	
	To Bank A/c				10,300
	(Purchase of shares and brokerage paid)				

Example 2 Journalise the following transactions in the books of Prakash.

Date	Particulars
2013	

June 01	Opened a Current Account with Rs 80,000
June 04	Additional capital of Rs 20,000 was introduced through a cheque.
June 12	Deepak who owed Rs 10,000 got bankrupt, only 30 paise in rupee was recovered from his official receiver.
June 18	Received interest on loan of Rs 3,000 from the debtor
June 20	Received Commission of Rs 800, half of which is in advance.
June 24	Brokerage of Rs 500 due to us.
June 25	Issued a cheque of Rs 5,000 in favour of Madhubala a landlady as a rent.
June 30	Salary amounting Rs 6,000 paid to Rana an employee.
June 30	Depreciation of Rs 500 charged on the Machinery

Solution

Books of Prakash				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013				
June 01	Bank A/c	Dr.	80,000	
	To Cash A/c			80,000
	(Opened a current account)			
June 04	Bank A/c	Dr.	20,000	
	To Capital A/c			20,000

	(Additional capital introduced through cheque)				
June 12	Cash A/c	Dr.		3,000	
	Bad Debts A/c	Dr.		7,000	
	To Deepak				10,000
	(Deepak got bankrupt and only 30 paisa in a rupee was recovered)				
June 18	Cash A/c	Dr.		3,000	
	To Interest Received on Loan A/c				3,000
	(Interest received on loan)				
June 20	Cash A/c	Dr.		800	
	To Commission Received A/c				400
	To Commission Received in Advance A/c				400
	(Commission received, of which Rs 400 is advance)				
June 24	Accrued Brokerage A/c	Dr.		500	
	To Brokerage A/c				500
	(Brokerage due)				
June 25	Rent A/c	Dr.		5,000	
	To Bank A/c				5,000

	(Paid rent)			
June 30	Salary A/c	Dr.	6,000	
	To Cash A/c			6,000
	(Salary paid to Rana an employee in cash)			
June 30	Depreciation A/c	Dr.	500	
	To Machinery A/c			500
	(Depreciation charged on the machinery)			

Example 3: Journalise the below mentioned transactions.

- (i) Sold goods to Bengal traders for Rs 25,000 and charged CGST and SGST @6% each.
- (ii) Discounted a bill of exchange for Rs 10,000 at 1% through bank
- (iii) Received payment of a loan Rs 5,000 and deposited Rs 3,000 out of it into the bank
- (iv) Received order for supply of goods from Raj valued Rs 40,000 and received Rs 15,000 as an advance together with order.
- (v) Goods worth Rs 40,000 supplied against order and advance received previously.
- (vi) Charge interest on loan to Sharad (Rs 5,00,000) at 15% for two months.
- (vii) Provide interest on loan from Shahid (Rs 5,00,000) at 15% for two months.
- (viii) Placed on Fixed Deposit Account at bank by transfer from Current Account Rs 10,000.

Solution:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Bengal Traders A/c	Dr.	28,000	
	To Sales A/c			25,000

	To Output CGST A/c To Output SGST A/c				1,500 1,500
	(Goods sold and sales Tax charged)				
(ii)	Bank A/c	Dr.		9,900	
	Discount on B/R A/c	Dr.		100	
	To Bill Receivable A/c				10,000
	(Bill of Exchange discounted at 1%)				
(iii)	Cash A/c	Dr.		5,000	
	To Loan A/c				5,000
	(Payment of Loan received)				
	Bank A/c	Dr.		3,000	
	To Cash A/c				3,000
	(cash deposited into bank)				
(iv)	Cash A/c	Dr.		15,000	
	To Advance from Raj A/c				15,000
	(Advance received from Raj)				
(v)	Raj	Dr.		25,000	
	Advance from Raj A/c	Dr.		15,000	

	To Sales A/c				40,000
	(Goods sold to Raj against advance received previously)				
(vi)	Accrued Interest on Loan to Sharad A/c	Dr.		12,500	
	To Interest on Loan to Sharad A/c				12,500
	(Interest on loan charged @ 15% p.a. for 2 months)				
(vii)	Interest on Loan from Shahid A/c	Dr.		12,500	
	To Outstanding Interest on Loan from Shahid A/c				12,500
	(Interest on loan provided)				
(viii)	Fixed Deposits A/c	Dr.		10,000	
	To Bank A/c				10,000
	(Transfer from current to Fixed deposit account)				

Example 4: Journalise the following transactions.

- 1) Goods worth Rs 50,000 sold to Mohan for Rs 80,000
- 2) Purchased goods from PQR Ltd. for Rs 20,000 plus CGST and SGST @6%
- 3) Sold goods costing Rs 5,000 for 7,000 and charged CGST and SGST @6%
- 4) Sold the balance goods to Jagat for 20,000 and charged CGST and SGST @6%
- 5) Deposited GST into Government's Account through cheque
- 6) Paid Cash to Mr. Mukherjee on behalf of Mr. Pandey Rs 5,000
- 7) Sold goods costing Rs 40,000 to Pankaj for Cash at a profit of 25% on cost less 20% trade discount and charged @6% each as CSGT and SGST paid cartage (Not to be charged from customer)

8) Paid fire insurance premium of a building half of which was used by proprietor for residential purpose in advance Rs 1,000.

Solution:

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(1)	Mohan	Dr.	80,000	
	To Sales A/c			80,000
	(Goods sold to Mohan at Profit)			
(2)	Purchases A/c	Dr.	20,000	
	Input CGST A/c Input SGST A/c	Dr. Dr.	1,200 1,200	
	To PQR Ltd.			22,400
	(Goods purchased and GST paid)			
(3)	Bank A/c	Dr.	7,840	
	To Sales A/c			7,000
	To Output CGST A/c To Output SGST A/c			420 420
	(Goods sold and GST charged)			
(4)	Jagat A/c	Dr.	22,400	
	To Sales A/c			20,000
	To Output CGST A/c To Output SGST A/c			1,200 1,200

	(Goods sold and GST charged)				
(5)	Output CGST A/c	Dr.		1,200	
	To Input CGST A/c				1,200
	(CGST charged set off against CGST paid)				
	Output SGST A/c To Input CGST A/c (SGST charged set off against SGST paid)	Dr.		1,200	1,200
	Output CGST A/c Output SGST A/c	Dr. Dr.		420 420	
	To Bank A/c				840
	(GST paid deposited into Government's Account)				
(6)	Mr. Pandey A/c	Dr.		5,000	
	To Cash A/c				5,000
	(Amount paid to Mr. Pandey on behalf of Mr. Mukherjee)				
(7)	Cash A/c	Dr.		44,800*	
	To Sales A/c				40,000
	To Output CGST A/c To Output SGST A/c				2,400 2,400
	(Goods sold for cash)				

(8)	Fire Insurance Premium A/c	Dr.		1,000	
	To Cash A/c				1,000
	(Fire Insurance Premium paid)				
	Drawings A/c	Dr.		500	
	Prepaid Fire Insurance Premium A/c	Dr.		500	
	To Fire Insurance Premium A/c				1,000
	(Fire Insurance premium for half of building charged to proprietor and remaining paid in advance)				

Cost of Goods Sold	40,000
Add: Profit 25% on cost	10,000
List Price of Goods	50,000
Less: Trade discount @ 20%	(10,000)
Invoice Price of Sales	40,000

Example 5 Journalise the following transactions in the books of Shashank.

- (1) Goods of Rs 10,000 were stolen in transit
- (2) Goods used in making furniture (Cost Rs 15,000 and Sales Price Rs 18,000)
- (3) Goods stolen by an employee (Cost Rs 8,560 and Sales Price Rs 12,500)
- (4) Paid into the Bank Rs 12,000 for opening a Current Account.
- (5) Placed on the Fixed Deposits A/c at bank by the transfer from the Current A/c Rs 15,000
- (6) Received a crossed cheque from Suraj to whom goods were sold for Rs 12,000 last year. Allowed him discount of 2%
- (7) Bank Charges for the half year Rs 250
- (8) Suraj's cheque was dishonoured and bank charged Rs 50.

Solution

Books of Shashank				
Journal				
Date	Particulars	L.F.	Debit	Credit

			Amount (Rs)	Amount (Rs)
(1)	Loss in Transit A/c	Dr.	10,000	
	To Purchases A/c			10,000
	(Goods stolen in transit)			
(2)	Furniture A/c	Dr.	15,000	
	To Purchases A/c			15,000
	(Goods used in making furniture)			
(3)	Loss by theft A/c	Dr.	8,560	
	To Purchases A/c			8,560
	(Goods stolen by an employee)			
(4)	Bank A/c	Dr.	12,000	
	To Cash A/c			12,000
	(Paid into bank for opening a Current Account)			
(5)	Fixed Deposits A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Transferred from the Current Account to			

	Fixed Deposits)				
(6)	Bank A/c	Dr.		11,760	
	Discount Allowed A/c	Dr.		240	
	To Suraj				12,000
	(Cheque received from Suraj and discount allowed to him)				
(7)	Bank Charges A/c	Dr.		250	
	To Bank A/c				250
	(Bank charges were charged by the bank)				
(8)	Suraj	Dr.		12,050	
	To Bank A/c				11,810
	To Discount Allowed A/c				240
	(Cash withdrawn from the bank)				